The Study of Franchising in Food Business: It's Prospects & Challenges with Special Reference to Mumbai City

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Title:

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1. Introduction:

The word ―franchise comes from the Norman French word "fraunchise," which was derived from the French word "frank" – free man, free to work something. The English word "franchise" originally was used to describe liberation from any prohibition, permission, or privilege – by which a company is allowed to do or not to do something for which it would normally not have rights [1]. A franchise is a type of license that grants a franchisee access to a franchisor's proprietary business knowledge, processes, and trademarks, thus allowing the franchisee to sell a product or service under the franchisor's business name. In exchange for acquiring a franchise, the franchisee usually pays the franchisor an initial start-up fee and annual licensing fees.When a business wants to increase its market share or geographical reach at a low cost, it may franchise its product and brand name. A franchise is a joint venture between a franchisor and a franchisee. The franchisor is the original business. It sells the right to use its name and idea. The franchisee buys this right to sell the franchisor's goods or services under an existing business model and trademark. Franchises are a popular way for entrepreneurs to start a business, especially when entering a highly competitive industry such as fast food. One big advantage to purchasing a franchise is you have access to an established company's brand name. You won't need to spend resources getting your name and product out to customers [3]

Franchise contracts are complex and vary for each franchisor. Typically, a franchise agreement includes three categories of payment to the franchisor. First, the franchisee must purchase the controlled rights, or trademark, from the franchisor in the form of an upfront fee. Second, the franchisor often receives payment for providing training, equipment, or business advisory services. Finally, the franchisor receives ongoing royalties or a percentage of the operation's sales.

India is the second largest franchise market in the world after the United States of America (USA) with about 4,600 operating franchisors and 0.15 - 0.17 million franchisee outlets in 2017. The industry is expected to contribute approximately 4% to the GDP of India by 2022. Franchising is not only a great way to encourage self-employment, but also a huge employment generator. The franchising industry is estimated to have employed over 14

million people, which is almost 10% of the total estimated Indian workforce. An IBM study estimated that 90% of Indian startups fail within five years. Whereas, the success rate in franchising is about 85%. This is due to multiple factors such as low initial investment, reduced costs, better margins, and provision of training and support that matches the present low-risk appetite of rural entrepreneurs.

Mumbai is a mega-market for the most profitable franchise businesses. The franchise setup is rapidly expanding in the city since last decade. Apart from all type of franchising, food industry franchise become more popular among citizens as comparative to retail or pharmaceutical. In Mumbai, both the franchisee and the franchisor are achieving their individual goals continuously. But it has been observed that most of the time big food & beverages franchise dominate over others in terms of maximum customers, best supply chain management & advertising. For example, McDonald or Dominoes are almost occupying more than 30% of market share of food franchise. There are mainly two reasons that seem to explain the rise and development of the franchising business model. First, it allows the franchisor to expand and enter new markets more quickly and second, it also allows the entrepreneur to create a business and achieve self-employment while taking lower risks. Also while developing the business in food industry, now days all franchise facing a lot of challenges like land acquisition, institutional support, and competition among local & outside franchise , legal issues, environmental concerns, market availability & Infrastructure shortage etc.

The focus of the study is to find the current performance of various national & international foods franchising presently working in Mumbai. The purpose of this study is to find out the challenges and opportunities of foods franchising under study area. Also research will be carrying out to check adaptability of various franchisee models in the study area.

2. Review of Literature

The literature relating to the topic is reviewed as under:

Dr. Alexey Nabatov (2014) has focused in her reference "Challenges and Opportunities of Multi-unit Franchising in Fast-food Industry: Franchisee's Perspective" that how challenges and opportunities of developing and operating multiple fast-food restaurants under an area development agreement. Also she identified the issues for a prospective franchisee has to be aware of in order to successfully manage his mini-chain. The results of this study indicate mainly the same issues that were expected to be found. The output of research involve propositions concerning allocation of units, proximity of outlets, free-riding problems,

uniformity of products, transfer of knowledge and local advertising practices, which were supported. This study has investigated the concept of multi-unit franchising from the franchisee perspective. Specifically, it focused on managing fast-food outlets under an area development agreement. First the work introduced the benefits and constraints that affect a franchisee's choice of this type of ownership and continued with challenges and opportunities associated with developing and operating multiple units. For the purpose of this study, several propositions were made based on previous research and they were then tested by gathering and analyzing data via interviews with large area developers. As the findings indicate, franchisees involved in area development agreements do not necessarily face the agency problems of their store managers. They do, however, monitor their outlets on a regular basis and allocate new units in a way that facilitates monitoring process. The proximity of other units is also an important factor in allocation decisions. In addition, an area development agreement enables sustaining the good image of a mini-chain by controlling all restaurants within the market and avoiding the free-riding problems of other franchisees. Uniformity of products and services is another advantage of an area development agreement that was predicted based on the theory and observed in the case companies.

Guillermo Navarro Sanfelix, Francisco Puig (2017) in his reference "New challenges in franchisor-franchisee relationship: An analysis from agency theory perspective" focused on Agency theory, which analyzes the contract relationships between the principal and agent and has been mostly applied to franchising in traditional sectors (e.g., restaurants, retailing, or travel agencies) where the processes and procedures can be easily standardized. Researcher has also expressed risk sharing and agency problem in franchising. Although the more traditional approach of the franchise is based on an assumption of a symmetric and invariable relationship in time between the principal and agent, the emergence of new sectors and realities shows an agency problem (AP) that is derived from asymmetries and discontinuities that challenge the effectiveness of the model. When the entrepreneur franchisee possesses resources and idiosyncratic capabilities that are difficult for the franchisor to standardize, at a later stage of the relationship it can be more advantageous to exploit these individually.

Dr. Ilan Alon, Mirela Alpeza (2007) in his reference "Opportunities and Threats Regarding the Development of the Franchising Business Model in Croatia" focused on issues related to the implementation of franchising business models in Croatian companies, using The San Francisco Coffee House as a referential case. The work investigated the potentials, barriers and significances of adapting franchising concepts on a microeconomic level. This study

explored the condition of franchising in Croatia, aims to contribute to the body of evidence about Croatian franchising, and contributes to theoretical research on international franchising. Therefore, a number of the stakeholders benefited from this investigation: managers, investors, potential entrepreneurs, service providers (financiers and advisors), policy makers, and theoretical researchers. There are few franchisors in Croatia in relation to its neighboring countries although franchising's possibilities are quite numerous. The barriers which the San Francisco Coffee House faced during its development of a franchise network highlight the major challenges which face Croatian companies as they seek to establish their own networks.

Susan Chacko, R. Sumathi (2021) in her reference "Challenges faced by the food industry under franchising sector", focused on the challenges faced by the food franchises concerning the Chennai region. Semi-structured interviews were conducted with company executives, academicians and researchers to identify the challenges which pose a great threat to the food franchises. In research output, they identified Nine challenges were identified from the data collected. The challenges identified were customer satisfaction, human resource, economic aspect, competition landscape, incorporation, innovation, resource and capabilities, supply chain management and government regulatory measures and ecosystem. Interpretive structural modeling (ISM) method is used to identify the most challenging factor which poses a great threat to the food franchise. The finding reveals that government regulatory measures and ecosystem is the most challenging factor in the franchised food sector.

Kyuho Lee (2010). In his reference "Critical Issues and Challenges in the Management of International Restaurant Franchises: Franchisee Perspective", focused on critical issues affecting international franchisees operating foreign franchise restaurants in Korea, including franchisor selection criteria, restaurant site selection, and training needs. The results of the study revealed that a highly efficient franchise system and a fair franchise contract are the most important factors that respondents consider in selecting an international franchisor. The results of the study further indicated that shopping mall and department stores were the preferred sites for restaurant franchises. U.S. restaurant executives engaged in international restaurant franchising or looking to develop international restaurant franchises in Asian countries could develop a competitive international franchising strategy based on the results of this study.

3. Profile of the Area

Mumbai (Previously known was Bombay) is capital city of Indian state of Maharashtra & also called as financial capital city of Republic of India (6.16% of GDP contribution). As per UN report was published in 2018, with 2 crore roughly population, Mumbai ranked 8th most populous city in the world and 2nd in India after Delhi. Mumbai is the part of the Mumbai Metropolitan Region and lies on the Konkan coast on the west coast of India and has deep natural harbor. Mumbai is home to three UNESCO World Heritage Sites: the Elephanta Caves, Chhatrapati Shivaji Maharaj Terminus, and the city's distinctive ensemble of Victorian and Art Deco buildings designed in the 19th and 20th centuries. Mumbai constitutes seven islands which were reclaimed areas between islands during the mid-18th century under Hornby Vellard Project. Due to financial, commercial and entertainment capital of India, Mumbai attract all business opportunities from worldwide and migrants from various part of country. Mumbai also host various industries, scientific institutes, financial centers, trade center, corporate and MNC offices and Cinema industries. For better administration purpose, Mumbai has two parts namely Mumbai City & Mumbai sub urban district.

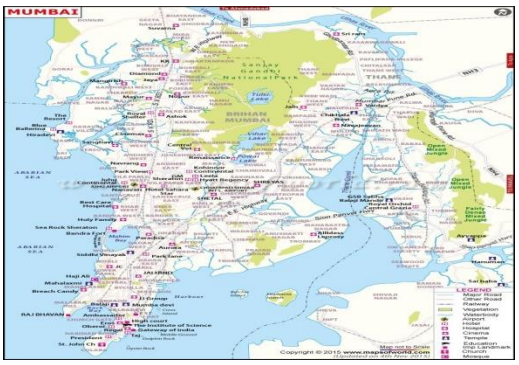

Fig. 1: Map of Mumbai

4. Statement of Problem

"The Study of Franchising in Food Business: It's Prospects & Challenges with Special Reference to Mumbai City"

Franchising can be seen as a contract for a period of time in which the owner of a trademark (franchisor) gives an entrepreneur or an organization (franchisee) the right to operate under its brand in exchange for an entry fee and royalties. Due to LPG reforms, now local and international franchising businesses are reaching to almost all sectors in India. In the context of international franchising, mutual cooperation and regular communication based on trust between Indian franchisors and international franchisees have become more significant since

geographic and cultural distance may hamper consistent communication, support, and monitoring between the two parties. In basically food franchising, the relationship between franchisor-franchisee plays important role in managing business. Some Indian players such as Amul India, OYO Hotels and Homes, Vakrangee Limited, Patanjali Ayurved Limited and Iffco eBazar Limited are taking India to the next level of franchising through their urban-rural India focus. Presently, these companies are delivering variety of products and services by substantially strengthening their business models. Though a lot needs to be done, yet access to basic services like banking, ATMs, logistics, and assisted e-commerce is a reality even in the remotest corner of the country. Currently so many food franchising businesses set up has been successfully done in metro cities like Mumbai or Chennai. But still only some of them are getting more success and dominate others, specifically low cost food franchising in city. Although some of them have very good supply chain management for franchising but still they are lacking because of improper strategic planning.

The present study will focus on influencing factors, which effect on franchising in food business. Also study will be carried on various prospects and challenges faced by local & international franchising in food industry. Along with that franchising models will be studied so that feasible model can adopt in study area to satisfy customer's expectations. Behavioral study will be done to improve confidence between franchisor-franchisee.

5. Rationale of the Study

In this 21st Century all traditional food industry businesses are transformed into modern food franchising businesses which attract more customers specifically young generations in metro city like Mumbai. The food franchising business has the numerous advantages, disadvantages and challenges of franchising from both the franchisor and franchisee points of view. However, there is limited evidence about the status of franchising in Mumbai regarding their number as well as name of companies which are part of international franchising networks and the number of Indian companies which became franchisors together with results of their business.

6. Objectives of the Study

The objective of Research as follows:

- To study various facets of the franchising business.
- To explore the performance evaluation of national & international food franchises present in the study area.
- To conduct comparative analysis of various franchising models in India & world and check their feasibility or scope in the study area.
- To identify challenges faced by franchisee & franchisor in food franchise business in study area.
- To find the relation between franchisee and franchisor intellectual capital for food franchise business in study area.
- To study opportunities & scope for low cost food franchise in study area.
- Forecast the future for food franchising in the next decade in study area.

7. Statement of Hypothesis

Following hypothesis is framed for the study,

H1: Food franchising business facing various challenges like land acquisition, legal and environmental concerns.

H0: Food franchising business not facing various challenges like land acquisition, legal and environmental concerns.

H2: The International food franchising network completely dominated market over local food franchising network

H0: The International food franchising network does not dominate market over local food franchising network

H3: There is true relationship exists between franchisee and franchisor to sustain food franchising business in Mumbai.

H0: The relationship between franchisee and franchisor in sustaining food franchising is not-existent in Mumbai.

8. Research Methodology

Qualitative Research:

Qualitative research methodology will be used and through it the information can be used to understand the various elements of franchising models present in the world. Subsequently investigation of current status of all national/local/international/low cost franchising will be studied by fixing the quality parameters. Interview method will be adopted to have the validity of research problem. Factorial data can be used to gather in-depth insights into the problem. Ethnography and phenomenological approaches will be used to conduct qualitative research.

Quantitative Research:

A survey method will be adopted with structured questionnaire in which all respondents will be covered from every national/local/international/low cost food franchising in Mumbai. The questionnaire will be used to measure impact level, satisfaction level & awareness between new foods franchising in city. While doing primary quantitative research, survey research, cross-sectional surveys & longitudinal surveys methods will be adopted.

Sampling:

The universe of the sample will be food franchising in Mumbai City. The size of the sample will be 500. The sample will be selected on random basis on the following parameters.

Area of Study	**Type of Franchising Respondent**	**Sample Size**			**Total**
		National Franchising	**International Franchising**	**Low Cost Food Franchising**	
Mumbai City District	Fast Food	20	35	10	65
	Cold/ Energy drinks, Coffee & Hot Beverages/Ice cream	15	20	10	45
	Bakery Goods/Dry fruits	10	20	10	40
	Regular Meal food	15	25	10	50

	Total:				**200**
Mumbai Sub Urban District	Fast Food	30	50	15	95
	Cold/ Energy drinks, Coffee & Hot Beverages/Ice cream	25	40	15	80
	Bakery Goods/Dry fruits	10	20	15	45
	Regular Meal food	25	40	15	80
	Total				**300**
	Total	**Mumbai District (200) + Mumbai Sub Urban district (300)**			**500**

9. Data Analysis

Tools of Analysis- After collection of data, it will be tabulated; coding and graphical presentation will be used for the analysis. Statistical tools like Mean, median, regression and standard deviation will be used for the interpretations and for drawing the conclusion, regression and correlation and Chi- square test will be used to know the validity of variables.

SPSS software will be utilized for the analysis of the data, charts, tables; diagram will be drawn to know the financial literacy of stock market among the investors.

10. Scope of the Study

The scope of the research study is to find out the feasibility of best franchising model for Mumbai city. Also research will work out challenges faced by local/international/low cost food franchising business in Mumbai. Performance evaluation of current food franchising units will be carried out to understand their current status. One of the important scopes of this study is to identify factors which encourage franchisors to do innovation in techniques and procedures among their franchisees and establish mechanisms for the transmission of these will increase the chances of survival of these establishments and therefore enhance the franchisor's chain.

11. Research Gap

After analyzing and study of various literature form local & international perspective, we came to know that there is no research work has been carried out for comparison of all types of food franchises in study area. Also no data is available regarding the challenges faced by franchisor-franchisee in study area. Also there is research gap found between how to adopt franchising models in metro-cities like Mumbai.

12. Limitation of the Study

The research study is restricted to Mumbai District, Maharashtra. Other areas are not covered under present study. The present study is restricted to only food franchising businesses. The findings of the present research study are confined to the Mumbai and may not be applicable to the other parts of the country. Present study is going to evaluate challenges & threats faced by franchisor and franchisee in food franchising businesses. Also scope and opportunities for food franchising businesses will be identified.

13. Chapter Scheme

a. Introduction:

The general information about concept of franchising business is discussed. Along with that advantages and scope of franchising in India, world and study area is also discussed.

b. Review of literature:

The above chapter focuses on the earlier research on the related topic by other scholars. It gives clear indications about the research problem. It includes the information from published data, articles, websites etc.

c. Profile of the area:

In a given chapter profile of study area has explained in terms of historical background, geographic location & its importance, scope for franchising etc.

d. Problem Statement:

In above chapter research problem has defined. Problem statement give us an idea about an area of concern, a condition to be improved, a difficulty to be eliminated, or a troubling question that exists in scholarly literature, in practice that points to the need for meaningful understanding and deliberate investigation.

e. Rationale of the Study:

In above chapter the justification is given for undertaking study. It states the a researcher chooses to focus on the types of franchises , their challenges & opportunities, including the

significance is and what gaps the research intends to overcome on them .

f. Objectives of Research:

In above chapter the researcher trying to describe objectives which she wanted to expect after research work. In a given chapter some objectives are primary and others are secondary linked with a hypothesis or used as a statement of purpose in a study that does not have a hypothesis.

g. Statement of Hypothesis:

In a given chapter three hypothesis statements are expressed which are predictions about what research will find. It is a tentative answer to the research question that has not yet been tested.

h. Research Methodology:

It will cover the different concepts and definitions, sampling details, methods of collection of data and methods of data analysis.

1) Analysis of Data:

   This chapter includes analysis of primary & secondary data collected by the researcher. This chapter also includes testing of hypothesis by using various tests like chi-square test, F-Test, Z-Test as applicable.

2) Findings: The above chapter highlights the findings, conclusion on reasons or factors which responsible for collapsing traditional business of Kumbhar community in research area. Also suggestion will be given to restore employment opportunities in traditional business.

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